



THE RESEARCH REVIEW



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In the Photo: Governor Phil Bredesen delivers his 2006 State of the State Address to House and Senate members. A summary of the Budget's Overview, presented to the Finance Ways and Means Committee in a recent budget hearing, is on page 12.

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The Agriculture Committee met on Tuesday, February 21st with three bills on calendar. All three bills were rolled.

HB 0168 (M. Turner) prohibits the use of toxic waste or substances containing heavy metals as fertilizer or in any other land preparation. (rolled 2 weeks)

HB 0263 (Stanley) allows locals to put ordinances into effect banning smoking in public buildings and restaurants. Permits those buildings to provide outdoor smoking areas. Excludes establishments where annual revenue from food sales falls under a certain percentage. (rolled 3 weeks)

HB 2533 (Swafford) Modifies the definition of “veterinary medicine” to exclude artificial insemination on specified livestock in certain instances. Makes it a livestock management practice exempt from licensure requirements. (rolled 1 week)

(summary by Denise Sims)

The Children and Family Affairs Committee and its Subcommittees did not meet this week.

The **Commerce Committee** met Tuesday to consider one bill. Next week in committee, there will be a presentation by representatives of the pyrotechnics industry.

HB 2097 (Pinion) allows a telephone cooperative in West Tennessee to be merged with another telephone cooperative operating in Western Kentucky. This is being done to reinforce the financial standing of the cooperative, and to ensure that it remains in business. This bill was moved to Calendar and Rules.

Small Business Subcommittee

The **Small Business Subcommittee** met Tuesday to consider one bill.

HB 2519 (Hackworth) would ban the practice of selling a cemetery plot or mausoleum niche to more than one individual. Violation of this would constitute a Class C misdemeanor. The bill was rolled one week for drafting of an amendment to the bill.

Industrial Impact Subcommittee

The **Industrial Impact Subcommittee** met Tuesday to hear a presentation by the Tennessee Hospital Association. Michael Huggins from the Tennessee Hospital Association was joined by David Nowiski, CFO at St. Mary's Hospital in Knoxville. Their presentation detailed the rising amounts of uncompensated costs, both due to underpayment by TennCare and Medicare and to rising costs to care for the uninsured.

Utilities and Banking Subcommittee

The **Utilities and Banking Subcommittee** did not meet this week and considered no bills.

(summary by Patrick Boggs)

The **Conservation and Environment Committee** convened February 22, 2006, to hear one bill.

HB409 (Borchert) authorizes unlimited taking of catfish greater than 34" in length. Testimony was heard from commercial fishermen, TWRA, and catfish fishing guides. The bill was deferred to February 2007.

The Subcommittees on **Wildlife, Environment**, and **Parks and Tourism** did not meet this week.

CONSUMER & EMPLOYEE AFFAIRS

Lucy
Wilson

The Full Committee did not meet this week.

Consumer Affairs Subcommittee

HB 132 – (Turner M) was referred to the full committee. It requires the issuer of a gift certificate to allow a recipient to redeem half of the face value of the gift certificate in cash.

HB 2574 (West) was referred to full committee. HB 2574 prohibits the sale of a gift certificate with an expiration date. It also mandates that the gift certificate be redeemable in cash for its full value. No fee, surcharge or additional expense could be imposed for the purchase, redemption or replacement of a gift certificate. This bill does not apply to gift certificates distributed in an awards, loyalty or promotional program without any money or other thing of value being given in exchange. Nor does it apply to certificates sold below face value.

Employee Affairs Subcommittee

HB 0153 (Turner M) requires employers offering deferred compensation plans to their employees to offer no less than three (3) independent options for investment. After discussion over which companies might be exempt based on size/number of employees, the sponsor reiterated companies that offered deferred compensation plans would be affected. The bill passed out to full committee.

HB 2578 (West) requires drug-free workplace credits

be based on an employer's annual premiums and those credits be given equally over the premium payment schedule. This particularly benefits smaller companies to which a \$200 to \$300 premium is a larger percentage of their operating budget. The bill passed out to the full committee.

The following bills were rolled two weeks:

HB 0136 (Turner M) requiring any person collecting a specimen for a drug or alcohol test be in good standing as a health care professional and to have never been convicted of any alcohol or drug related offense

HB 0141 (Turner M) provides an eligible claimant for unemployment compensation cannot be denied benefits if he or she left work or was discharged due to circumstances relating to domestic violence

HB 0144 (Turner M) requires split urine testing under the Drug-Free Workplace Program; specimens shall be divided into two parts with one of those placed in a tamper-proof container and returned to the employee; if the test is positive, employee may request a retest of the specimen in his/her possession

HB 0152 (Turner M) prohibits laboratory employees who have been convicted of any alcohol or drug related offenses from performing any test of specimens

Chairman Hackworth distributed information on the issue of companies going bankrupt, selling out, etc. and defaulting on all or part of the employees' benefits including retirement and health. Although pension benefits regulation and bankruptcy are under federal jurisdiction, Chairman Hackworth requested that members think about this issue and determine what, if anything can be done at the state level that will protect these employees.

The first meeting of the **Education Committee** was held on Wednesday, February 22nd. It began with Mrs. Wilson's kindergarten class from Shane Elementary in Nashville. The twenty students presented each committee member a Dr. Seuss book for the members to sign and return to the students. Each year, Dr. Seuss's birthday is celebrated on March 2nd with the "Read Across America" program.



Kindergarten students enjoy the Read Across America event with the House Education Committee.

The committee next heard from Dr. Bobby Wood, Director of Shelby County Schools, on his support of House Bill 1909. This legislation would change the calculation of the BEP from the present prior year average daily membership to current year numbers.

Action on the committee calendar follows:

Referred to Calendar & Rules:

HJR 823 – (Winningham)
Promotes the "Read Across America" program.

HJR 824 – (Winningham) Names
May 9, 2006 "National Teacher Day."

Referred to Finance, Ways & Means:

HB 1909 – (Winningham)
Changes the calculation of the BEP of each LEA from prior year average membership to current year average daily membership.

Following calendar action Dr. Gary Nixon, Executive Director of the State Board of Education, gave a report on this year's recommendations of the BEP Review Committee. These recommendations are sent to the Governor for his consideration.



Dr. Gary Nixon, Exec. Dir., State Board of Education

K-12 Subcommittee

The **K-12 Subcommittee** held its first meeting of 2006 on Tuesday, February 21st. Dr. Robert Ruble, Executive Director of the Tennessee Student Assistance Corporation, spoke on developments in his office. He introduced Tom Bain, legislative liaison, and Darolyn Porter, Compliance Administrator for Student Financial Aid. She provided information on College Bowl Sunday and the success of the first one held February 12th. This is a free program for high school students and their parents to assist them in applying for financial aid for college.

Action on the subcommittee calendar follows:

Deferred 2 weeks:

HB 2442 – (Moore)

HB 2439 – (Turner, Mike)

Deferred 3 weeks:

HB 251 – (Stanley)

HB 1982 – (Hargett)

The **Higher Ed Subcommittee** did not meet this week.

Week of February 20th 2006:**The Full Committee**

As of the Tuesday, February 21st meeting, there have not been any bills to be heard on the committee's calendar during the Second Regular Session of the 104th General Assembly.

We are currently in our second full week of Budget Hearings. The full committee began this year's series of budget hearings with Commissioner Dave Goetz's presentation which overviewed the Governor's budget proposal for fiscal year 2006-07. The Comptroller of the Treasury, Mr. John Morgan, also led a discussion on the Funding Board's recommendations of revenue estimates at its December 2005 meeting. At the Funding Board meeting, Revenue Estimates for FY 2005-06 and FY 2006-07 were presented and agreed upon and the various reasoning behind different financial growth trends studied. The Comptroller briefed the committee on all these issues and the reasoning behind the chosen growth rates. *(See page 13 for summaries of the Overview of the Governor's Budget and the Funding Board's Revenue Estimates.)*

Departmental Budget Hearings have already begun. The House Finance, Ways, and Means Committee is now meeting three times per week to review each department's budget. Extra seating has been reserved in the audience for legislators who are non-committee members and wish to attend. The hearings may also be observed through live video streaming on the internet through the legislature's website, <http://www.legislature.state.tn.us>.

The Budget Subcommittee

The Budget Subcommittee's first calendar was printed for Wednesday, February 15, 2006. Both bills on the first week's calendar were deferred for two weeks at the request of the sponsor (**HB 320 and HB 456**, both by **Rep. Davidson**). The committee did not meet since the two bills on its agenda had been deferred prior to the call of the meeting.

The Budget Subcommittee held its first meeting on Wednesday, February 22, 2006. The four items on calendar were **HB 2455 (Swafford)**, **HB 129 (M. Turner)**, **HB 294 (M. Turner)**, and **HB 2568 (West)**. Two bills were deferred for two weeks at the request of the sponsor, HB 2455 and HB 2568. HB 129 was taken off notice by the sponsor. HB 294 was referred to the Council on Pensions and Insurance.

The Government Operations Committee met on Wednesday, February 22nd and considered four bills.

HB 0139 (M. Turner) calls for landfills, once filled or closed, to be covered with native grasses. The bill calls for the Department of Environment and Conservation to promulgate rules as to what types of grasses will be used. Questions arose concerning potential recreational use and approval. The bill was rolled for one week.

HB 2621 (McMillan) enacts the “Pay Equity in the Workplace Act of 2006.” The bill adds additional remedies to existing law regarding wage discrimination

and gender. It calls for the Commissioner of Labor and Workforce to develop guidelines for employers to evaluate job categories, voluntarily compare wages, and determine fair and equitable pay scales and compensation. The proposal generated a good deal of discussion as to extending the provisions to ethnic minorities and viewing the disparity studies behind the proposal. The bill was rolled for one week.

House Bills 0124 and 0138 (M. Turner) were taken off notice.

(summary by Denise Sims)

HEALTH & HUMAN RESOURCES

Judy
Naramore

Full Committee

The **Health & Human Resources Committee** held its first meeting of 2006 on Tuesday, February 7th at 10:30 AM. Chairman Armstrong welcomed new and returning committee members and staff. Julie Dunn, MD, gave a presentation on Tennessee’s trauma care system. Dr. Dunn is Trauma Director at Johnson City Medical Center and Chair of the Trauma Care Advisory Council.

The **Health & Human Resources Committee** met on Tuesday, February 14, 2006, to hear from Jim McConnell on future long term care systems with a consumer focus. Mr. McConnell is a consultant on aging and disability issues in Portland, Oregon.

The **Health & Human Resources Committee** met on Tuesday, February 21, 2006, to hear from Commissioner Virginia Lodge, Department of Human Services, Commissioner Kenneth Robinson, Department of Health, and Commissioner Virginia Trotter Betts, Department of Mental Health & Developmental Disabilities. Each commissioner gave a departmental overview, with emphasis on 2006 priorities and budget issues.

Professional Occupations Subcommittee

The **Professional Occupations Subcommittee** held its first meeting of 2006 at noon on Wednesday, February 22nd with two bills on calendar: HB 2561 by Rep. Shepard (massage therapists) and HB 1288 by Rep. DeBerry, L. (surgery under sedation). At the request of the respective sponsor, both bills were rolled two weeks.

Commissioner Kenneth Robinson



The Full Judiciary Committee

On Tuesday, the **Full Judiciary Committee** met to discuss two bills. **HB 142** by Rep. Mike Turner was referred to Finance. This bill increases the penalty for the offense of promoting prostitution from a Class E felony to a Class D felony. **HB 2444** by Rep. McMillan was referred to Calendar and Rules. This bill codifies the acts of the 2005 session.

The Full Judiciary Committee heard from two presenters. Mr. Don Paine, Reporter for the Advisory Commission to the Supreme Court on Rules of Practice and Procedure, provided a summary and an explanation of the proposed changes to the Tennessee Rules on Civil, Criminal, and Appellate Procedures to the committee. The second presenter was Erik Cole, the Executive Director for the Tennessee Alliance for Legal Services. He was there to discuss the types of work being done by the Tennessee Association of Legal Services and its mission to provide legal assistance to low income Tennesseans.

Civil Practice & Procedure Subcommittee

On Tuesday, the **Civil Practice & Procedure Subcommittee** met to discuss five bills. HB 310 by Rep. Coleman was rolled to the last calendar. HB 1109 by Rep. McMillan was taken off notice.

The following bills were rolled for 1 week:

HB 986 by Rep. Mike Turner
HB 2526 and HB 2422 by Rep. Fowlkes

Criminal Practice & Procedure Subcommittee

On Tuesday, the **Criminal Practice & Procedure Subcommittee** met to discuss five bills. HB 161 by Rep. Mike Turner and HB 1625 by Rep. Pinion were taken off notice. HB 166 by Rep. Mike Turner was rolled 1 week. HB 1399 by Rep. McCord was rolled 3 weeks. Lastly, **HB 151** by Rep. Mike Turner was referred to Full Committee. HB 151 increases the penalty of domestic assault from a Class A misdemeanor to a Class E felony.

Constitutional Protections Subcommittee

The **Constitutional Protections Subcommittee** met on Wednesday to discuss two bills. After much discussion, HB 2570 by Rep. West was taken off notice. HB 2625 by Rep. McMillan was rolled 1 week.

Judicial Administration Subcommittee

The **Judicial Administration Subcommittee** did not meet this week.

This week in the **State and Local Government Committee**, members studied the issue of constable uniformity and training across the state. A constable is an elected officer of a county whose duties are similar to those of a sheriff. The committee heard testimony from the *Tennessee Constables Association* and the *Tennessee Constables Council*. Both organizations, collectively, represent the majority of constables across the state and are responsible for providing the state-required training.

State and Local Government committee members expressed concerns regarding several issues such as adequate training, appropriate disciplinary actions, law enforcement powers, the powers of counties to establish or abolish the office of constable, the use of blue lights, proper uniforms and vehicles, and liability issues. The committee is charged with making recommendations for legislation that will address the above issues and make clear the responsibilities and powers of constables across the state. The committee will continue studying this issue next week on Tuesday, February 28th, at 12 p.m. in LP 16.

The **Subcommittees** of the State and Local Government Committee did not meet this week.

TRANSPORTATION

Jeremy L.
Elrod

Full Committee

(February 14, 2006)

The **House Transportation Committee** convened on February 14, 2006 to hear a presentation by Paul Deggs and Ed Cole of TDOT regarding roadside memorials as urged by 2005 Public Chapter 117. The report noted the safety concerns of having signs or memorials placed along a highway's right of way while weighing a citizen's desire to memorialize a loved one's death. TDOT recommended using Adopt-A-Highway or the department's new "Tennessee Roadscapes" program to satisfy this issue. In this program roadside landscaping projects can be used to possibly develop "a type of memorial garden where visitors can pay tribute to a loved one without the exposure to the hazards of the highway."

(February 22, 2006)

The **House Transportation Committee** convened on February 22, 2006, to consider one bill. **HB2583** (Bone) limits honorary designations on State Route 840 to memorials to members of Tennessee National Guard killed while on active duty. This bill was passed to Calendar and Rules.

The committee then heard a presentation by Ed Cole and Jeanne Stevens of TDOT on linking state transportation with economic development. The report pointed out state transportation plans can affect local development, and in turn local development can influence the state's transportation plans. The report also stressed the need for state transportation officials to work closely with local leaders in formulating a transportation plan unique to the needs of each city or county.

Public Safety & Rural Roads Subcommittee

The **Public Safety & Rural Roads Subcommittee** met February 22, 2006, to consider one bill. **HB2537** (Fowlkes) amends Tennessee's "Move Over" law by increasing the penalty for failure to yield right-of-way to emergency vehicles from Class C misdemeanor to Class B misdemeanor, punishable by a fine of no less than \$100 nor more than \$500, or imprisonment not to exceed 30 days, or both. This bill was passed to the full Transportation Committee.

Public Transportation & Highways Subcommittee

(February 14, 2006)

The **Public Transportation & Highways Subcommittee** met on February 14, 2006, to consider one bill. **HB2583** (Bone) limits honorary designations on State Route 840 to memorials to members of Tennessee National Guard killed while on active duty. The bill was passed to full committee.

(February 21, 2006)

The **Public Transportation & Highways Subcommittee** met on February 21, 2006, to consider

six bills. **HB2573** (West) was taken off notice. The following five bills were passed to the full Transportation Committee:

HB2440 (Swafford) - Provides for erection and maintenance of directional signs for Military Memorial Museum of Cumberland County on I-40 at Exit 317.

HB2456 (Swafford) - Effective July 1, 2006, redesignates Holder of Purple Heart cultural plates, which presently require a \$25.00 issuance fee, as memorial plates so as they can be issued free of charge to qualified persons.

HB2615 (Crider) - "Deputy Richard Norville Memorial Highway," sign on segment of State Route 104 in Gibson County.

HB2524 (Fraley) - Authorizes issuance of cultural license plates for active service members and veterans of Operation Iraqi Freedom.

HB2509 (Cobb) - "John Redmond Bridge," highway sign on U.S. Highway 41A over Cheatham Creek in City of Eagleville.

Governor Phil Bredesen



Budget Hearings

: Overview of the Governor's Budget

: Funding Board's Revenue Estimates

“The Budget Overview for Fiscal Year 2006-07”

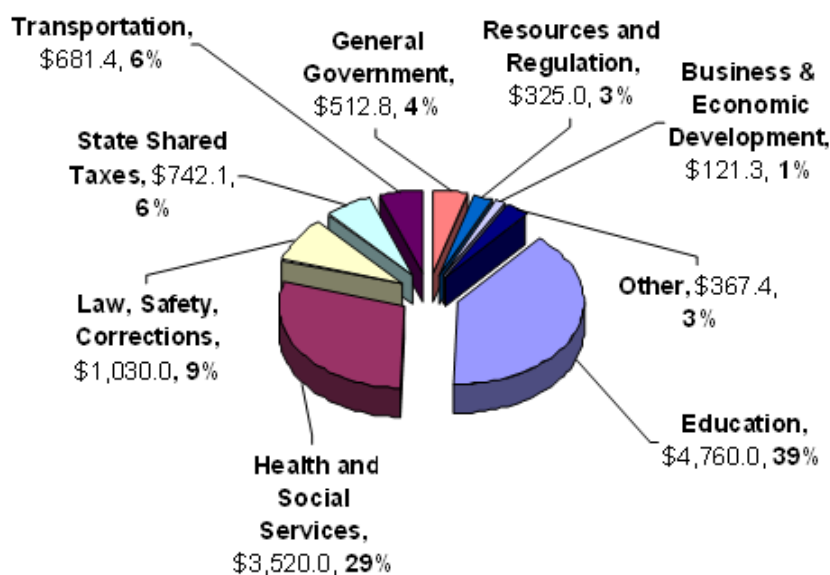
Commissioner Goetz began his presentation to the House Finance, Ways, and Means Committee by giving the committee the three basic budgetary principles used in preparing Governor Bredesen’s budget proposal for fiscal year 2006-07. The Governor’s three basic budgetary principles are:

- (1) To Maintain Education as a Number One Priority;
- (2) To Invest in Fundamentals (i.e., education, health care, jobs and infrastructure, safe and strong communities); and
- (3) To Submit a Responsible Balanced Plan with No New Taxes.

Comnr. Goetz then presented a brief overview illustrating the achievements of the Bredesen administration over the past four years, prior to briefing the committee over the FY06-07 budget. According to the Commissioner, many of the budget fundamentals that Governor Bredesen’s administration can take pride in include : the passage of balanced budgets funded

with no new taxes during each of the four years the Governor has been in office; the successful controlling of TennCare costs; maintaining a very conservative budget growth (with the FY07 budget only representing a growth of 3.4%, which is below both the southeastern and national averages); having two years of moderate economic growth; including a record savings of \$382 million in the Rainy Day Fund; and obtaining an improved bond rating.

The following pie chart represents the State Taxpayers’ Budget, showing the distribution of the state’s tax dollars into the various pieces of state government. The “taxpayers’ budget” consists of only state funds; it excludes federal sources of revenue as well as dedicated taxes and fees. The percentages shown in the pie chart represent the percentage of state tax dollars each category receives in relation to its counterparts in state government. For example, Education makes up 39% of the state’s budget, the largest “piece of the pie.” For every dollar the state will spend in FY 06-07 with this proposed budget, 39 cents of that dollar goes toward Education, thus totaling \$4.76 billion in State funding toward that one purpose.

FY 06-07 Taxpayers’ Budget (state dollars only, in millions)

The new budget for fiscal year 2007 has declined by 2.6% from last fiscal year. This reduction is partially due to the Medicare Part D Clawback, where the federal government has required the State to pay \$295 million in State funds to the Centers for Medicare and Medicaid Services, CMS, in the clawback. (The federal government in January started covering prescription drugs for the elderly under Medicare Part D. Under the federal law there is a 'clawback' feature for the dual eligibles, i.e., those citizens who are covered under both Medicare and Medicaid. The federal government is thereby taking that money back, thus reducing the state's budget by nearly \$530 million in federal funds and \$290 million in supplemental rebates ("other" funds); we are thus paying back \$295 million to the federal government, with early projections showing a net loss of \$20 million to the state in order to cover prescription drugs for those members of the state's elderly population that are considered "dual eligibles.") Another key element of revenue decline in the State's budget include an extraordinary one-time TennCare expenditure in FY06 where \$134.5 million was paid to save the Medically Needy Program and a maximizing \$6 million toward the Ryan White Fund. Some federal funding was directed toward Hurricane Katrina Evacuees in the form of one-time disaster assistance monies during the 2005-06 fiscal year, insuring the availability for housing of evacuees and providing for the additional students on the state's educational system. The final factor explaining for the reduction in federal funds to the state's budget was that the newly revised estimates that were expected to be authorized for Federal Transportation Projects within the state were actually lower than expected, i.e., they didn't cost as much as previously expected.

The \$671.1 million in improvements slated for the FY 06-07 Budget include:

- \$232.8 M into Education
 - Fully funding the BEP, \$95.2M;
 - Increasing Teacher Salaries by 2%, \$42.4M;
 - Expanding Pre-K (adding up to 250 new classrooms) through funds from both the Lottery and the General Fund, \$45M;
 - Increasing the BEP for At Risk and ELL students, \$20M; and
 - Math and Science High School (Space Institute, Tullahoma), \$1M

- \$115.4 M into TennCare, includes a provider rate increase and conforming with the Grier consent decree
- \$88.8 M for State Employees' Pay Raises/ Class Comp/Salary Compression Issues (equivalent to a 3.1% raise for state employees, which includes a 1% salary increase for State Employees, 2% for Higher Ed, and 2% for K-12 teachers)
- \$63.6 M toward contributing to the Tennessee Consolidated Retirement System
- \$28.1 M for the new Enterprise Resource Planning (for the new payroll system)
- \$22.0 M to restore State Shared Taxes
- \$20.7 M for the State's Group Health Insurance rate increase (8% growth)
- \$14.8 M toward Job Training and High Tech Infrastructure (Dept. of Economic & Community Development)
- \$12.1 M for the Health Care Safety Net (Dept. of Finance & Administration)
- \$11.0 M for the State Sales Tax Holiday (August 4-6, 2006)
- \$10.0 M for the Heritage Conservation Trust Fund
- \$5.0 M to increase reimbursement to Local Jails for housing State prisoners
- \$4.75 M for a Tourism Advertising Campaign
- \$4.0 M for Disaster Preparedness (Interoperability)
- \$3.5 M for Drug Court Funding
- \$3.3 M for Agricultural Program Improvements
- \$1.0 M to Eliminate the Statute of Limitations for sex crimes against children
- \$0.924 M to Eliminate Park Access Fees at all State Parks
- \$0.500 M for an Anti-Internet Predator Education Campaign

Despite tough economic times and budget cuts over the past three years, \$500 million new dollars have gone into Pre K-12 education and \$600 million new dollars have been invested in Higher Educational capital projects.

The Budget Breakdown is as follows (showing a comparison of estimated funding for FY 05-06 and FY 06-07):

TENNESSEE'S TOTAL STATE BUDGET GROWTH BY FUND (Federal & State Dollars Combined)			
Revenue Source (millions)	FY 2005-06 (estimated)	FY 2006-07 (recommended)	CHANGE
State Appropriations	\$11,659	\$12,056	3%
Federal Revenue	9,933	9,270	(7%)
Other Departmental	3,421	3,050	(11%)
Tuition and Fees	880	880	---
Bonds	429	376	(12%)
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TOTAL	\$26,322	\$25,632	(2.6%)

Fund (millions)	FY 2005-06 (estimated)	FY 2006-07 (recommended)	CHANGE
General Fund	\$22,937	\$22,330	(2.6%)
Transportation	1,859	1,721	(7.4%)
Debt Service	285	302	6%
Capital Outlay	390	354	(9.2%)
Facilities Revolving	130	183	40.8%
Cities/Counties (SST)	721	742	2.9%
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TOTAL	\$26,322	\$25,632	(2.6%)

Commissioner Goetz presents an overview of the budget to Finance Committee members.



"Funding Board's Revenue Estimates for FY 05-06 and FY 06-07"

Comptroller John Morgan presented to the House Finance, Ways and Means Committee, on February 15, 2006, the Funding Board's projected revenue estimates for the FY 05-06 budgetary year and setting estimates for the FY06-07 year. These estimates were agreed upon during the State Funding Board's last meeting on December 6, 2005. Charged with the responsibility of developing consensus ranges of the State's revenue growth, the Funding Board evaluates and interprets economic data and revenue forecasts which are supplied to the Board by various different economists and by those persons who are acquainted with the state's revenue system. The Board then makes estimates in the amounts of revenues received and projects as to what might be received in the future. Through this process, they do not take into consideration as to what is needed, i.e., "it is not a budgeting process"; as stated in the Comptroller's memo for the committee presentation, "the Board does not take into consideration the State's fiscal situation when developing its consensus ranges of revenue growth", instead they just focus on the levels at which revenues are flowing in, trying to get a firm grasp as to what those numbers are and how they are affected by current events. The Funding Board then agrees upon and recommends the final level of revenues that would then be the numbers that are used to develop the State's budget and thus becomes the *de facto* revenue estimate that is finally adopted by the General Assembly through its final vote on the appropriations bill.

The consensus of the Funding Board is that "the economy is growing, but problems remain. The lack of an educated workforce, or the existence of an undereducated workforce, works against the Tennessee economy in many ways. Tennessee is less able to attract companies needing a large and consistent pool of technically proficient workers and workers with advanced degrees. Tennessee has experienced some job growth, but it has been spotty and has been substantially in low wage jobs. Tennessee's tax system

depends upon healthy growth in sales tax collections. Such growth is in turn dependent on growth in per capita income resulting in increased discretionary income."

The Funding Board recognized the negative impact to revenues by the increase in interest rates and the increase in prices of gas and heating oil. Housing starts are slackening, but the demand for, and costs of, construction materials are continuing to rise due to recent hurricanes in 2005. Presenting economists acknowledged that many households are not saving for the future and are continuing to spend without significant growth in personal income, perhaps in part relying on real property investment (increased real property values). Also acknowledged was the unpredictability of the Franchise and Excise Taxes, a trend happening in other states across the country. Tennessee's F&E taxes are performing beyond the national economy, outpacing other states due to Tennessee's recent closing of various business tax loopholes, but the Board acknowledged the likelihood of continued statutory changes being necessary as corporate taxpayers create new ways to avoid paying their taxes.

All presenters agreed the State would experience modest revenue growth during both FY 05-06 and FY 06-07. For fiscal year 2005-06, estimates ranged from 4.31% to 4.83% for total revenue growth; for fiscal year 2006-07, estimates for total revenue growth range from 3.57% to 4.32%. The Board finally decided on growth rate ranges in State tax revenue collections; the table below summarizes those estimate ranges:

	FY 2005-06		FY 2006-07	
	Low	High	Low	High
Total State Taxes	4.60%	4.85%	3.50%	4.00%
General Fund Only	4.65%	4.90%	3.80%	4.30%

The Board also received presentations on the Tennessee Education Lottery, including revenue projections for both FY 06 and FY 07. Continuing to be conservative in their estimates which are used for various statutory purposes, the Funding Board agreed upon the following estimate ranges for net proceeds of lottery revenues to be deposited into the Lottery for Education Account:.

Net Lottery Proceeds		
	Low	High
FY 2005-06	\$233,900,000	\$238,700,000
FY 2006-07	\$238,500,000	\$243,500,000

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